Corporate governance practices and outcomes in social enterprises in the UK

A case study of South Yorkshire

Walter Mswaka
Business School, University of Huddersfield, Huddersfield, United Kingdom, and
Olu Aluko
University of Huddersfield, Huddersfield, United Kingdom

Received 28 March 2014
Revised 26 September 2014
Accepted 29 September 2014

Abstract

Purpose – The purpose of this paper is to explore the growth of social enterprise in the UK in the context of the renewed interest in the creative use of organisations with a social mission to complement public service delivery. Given the impact of globalisation and increased demands for effective social welfare interventions, this paper specifically focuses on the nature and type of social enterprise governance models and how they influence their outcomes.
Design/methodology/approach – The study utilises a mixed method approach involving the complementary use of quantitative and qualitative data collection methods.
Findings – The paper finds that the way in which the social enterprise governance structure is designed ultimately influences its outcomes. In particular, those with stewardship governance models tend to perform better than those with democratic models of governance. This leads to a conclusion that in the social context of the UK, social enterprise should aim for a paradigm shift in the design and selection of governance models.
Research limitations/implications – Comparative regional experiences in other regions or social contexts could enrich our understanding of whether these results are applicable across the board.
Practical implications – This paper is of potential benefit to researchers and particularly those designing policies for the governance of social enterprise.
Originality/value – The study employs innovative analytical theoretical lenses not normally associated with the social economy, namely agency, stewardship and resource dependency theories to provide a more in-depth analysis of the governance of contemporary social enterprise.

Keywords Corporate governance, Innovation, Globalization, Social enterprise

Paper type Research paper

Introduction

The discourse around social enterprise is increasingly gaining scholarly attention among researchers (e.g. Bull, 2008; Chell *et al.*, 2010; Eversole *et al.*, 2013). Current insights from the literature show that social enterprises make unique contributions to public good through the regeneration of deprived areas (Bertotti *et al.*, 2011; Cornelius and Wallace, 2013; Darby and Jenkins, 2006; Defourny and Nyssens, 2008). Nonetheless, despite current growth in the literature, social enterprise still suffers from definitional issues and much academic scrutiny have been to devoted to defining the concept (Eversole, 2013; Kerlin, 2010). Scholars, however, agree that a social enterprise is a business that seeks to simultaneously provide social, environmental and economic benefits through enterprising activities (Eversole *et al.*, 2013; Steinerowski and Steinerowska-Streb, 2012). However, to date, there is paucity of empirical research scrutinising how nature of social

International Journal of Public Sector Management
Vol. 28 No. 1, 2015
pp. 57-71

0951-3558
DOI 10.1108/IJPSM-03-2014-0048

enterprise governance affects its operations. Historically, social enterprises have been governed through democratic governance models which emphasise the development of trust and solidarity among those involved and are not necessarily geared towards supporting commercial activities (Low, 2006). As a result, social enterprises have been dependent on institutional support largely in the form of grants and technical support (Spear, 2006). Current discourses, however, show that there is a shift by social enterprises from democratic to profit maximisation governance models that allow them to achieve their economic aims without undermining their social ethos (Cornforth, 2003; Mason *et al.*, 2006). Even though scholars such as Harradine and Greenhalgh (2012) suggest that this development is a result of the changing UK economic climate, the literature is inconclusive as to whether this shift can improve the sustainability of social enterprises. This is an area of social enterprise development requiring further academic scrutiny, given the constantly evolving nature of the boundaries of the concept (Teasdale, 2012). We therefore seek to address this gap by investigating how the governance models adopted by social enterprises influence their outcomes. Drawing on the findings of an investigation of social enterprises in South Yorkshire, we employ agency theory (AT), stewardship theory (ST) and resource dependency theory (RDT) theoretical lenses to critically analyse governance models of 3 social enterprises. Although the theoretical lenses are alien to the social enterprise sector we argue that they allow us to investigate social enterprises as corporate bodies and therefore gain insight into nature of their governance and particularly their interface with the environment.

The paper is structured as follows: the discussions start with a brief review of governance theories and how they can be applied to social enterprise. This is followed by a critical analysis of social enterprise governance models, underpinned by selected theoretical frameworks. The paper concludes by discussing the findings of an in-depth case study analysis of four social enterprises all working in similar local contexts, undertaken in South Yorkshire region, UK.

Governance of social enterprises

The governance of firms, and particularly the role of the board and its impact on performance, continues to attract the interest of researchers (Nicholson and Kiel, 2004; Herrala and Haapasalo, 2012). Monks and Minow (1995, p. 1) describes corporate governance as "the relationship among various participants in determining the direction and performance of a corporation". The board is the locus of the internal governance of a corporation and performs several key roles (Daily *et al.*, 2003). These include performing various managerial functions and making key decisions regarding the direction and strategic focus of the organisation (Bridge *et al.*, 2009; Nicholson and Kiel, 2004). Zahra and Pearce (1989) summarise the functions or roles of the board as service, control and strategic. These functions can be associated with the agency, stewardship and RDTs.

Whilst governance is not new in the commercial sector, it is increasingly coming under scrutiny in the social economy (Low, 2006). For instance, Abzug and Galaskiewicz (2001) highlight the difficulties of identifying the principal and the agent in social enterprise governance structures, given that they are not commercial entities. Traditionally, social enterprises have been governed through democratic models which have roots in the philanthropic organisations of the nineteenth century (Chell, 2007; Pearce, 2003). The boards of directors or trustees of these organisations are unpaid and usually voluntary in nature (Paton, 2003). Despite being voluntary, such boards of directors are pivotal to the success of social enterprise as they ensure accountability, legitimacy and transparency in the operations of such organisations (Spear *et al.*, 2009).

This paper now critically analyses the governance of social enterprise in the context of AT, RDT and ST perspectives on of corporate governance.

Corporate governance theories and their application to social enterprise

AT and social enterprise

AT is considered as one of the dominant theoretical perspectives in the literature on corporate governance (Daily *et al.*, 2003; Muth and Donaldson, 1998). The theory is underpinned by the assumption that shareholders will lose control as the firm grows and that managers will prioritise their own interests above those of the organisation (Jensen, 2001). The theory analyses the relationship between the principal (stockholder) and the agent, who is responsible for implementing the tasks delegated by the principal (Eisenhardt, 1989). In a conventional business sense, a social enterprise has no shareholders or stockholders. As mentioned earlier, Abzug and Galaskiewicz (2001), Mason *et al.* (2006) and Low and Chinnock (2008) argue that it is difficult to identify the principal and the agent. Given that the governance of social enterprise is underpinned by democratic and participatory principles, it is highly unlikely that senior managers of qsuch enterprises would engage in self-serving activities. It is therefore evident that this type of governance contradicts the AT approach, at the core of which is an independent board free from managerial influence (Muth and Donaldson, 1998). Furthermore, the lack of clear separation of powers between the executive and operational staff in non-profits can create a minimalist board and negatively affect efficiency (McNulty and Pettigrew, 1999; Spear *et al.*, 2009). Callen *et al.* (2010) and Iecovich (2005) however stress that the AT approach is still relevant to social enterprise. The researchers cite specifically the role that the board plays in protecting the organisation's assets and controlling the activities of managers to prevent misallocation of resources. This view is supported by Fama and Jensen (1983) who suggest that mechanisms to control assets and monitor activities and staff of non-profits are essential, since these organisations do not normally possess residual assets.

RDT and social enterprise

Whilst the AT theory focuses on the board's monitoring and controlling role, the resource dependency (RD) theoretical approach explains how directors ensure that their organisations access the resources they need (Daily *et al.*, 2003). This approach focuses on the exchange relationship between the firm and its external environment (Davis and Cobb, 2009). Bazerman and Schoorman (1983) suggest that the RDT approach has four benefits in that it focuses on network connections among directors, horizontal coordination, vertical coordination and expertise and reputation. Hillman and Dalziel (2003) refer to these collectively as board capital, consisting of both human and relational capital necessary in assisting an organisation to mobilise key resources. Since raising capital is a constant challenge for social enterprises, the RDT is thus relevant to social enterprise as they are keen to increase the flow of resources and expertise from external constituencies (Callen *et al.*, 2010; Cornforth, 2014; O'Regan and Oster, 2005). For example Callen *et al.* (2010) observed that some social enterprises deliberately recruited directors on the basis of their ability to positively influence the outside world to the advantage of their organisations. Iecovich (2005) referred to this type of strategy as boundary spanning. The board therefore acts as a link to the external environment, which can facilitate access to resources. This is one of the ways in which social enterprises can reduce their dependence on government financial support (Eikenberry, 2009).

ST and social enterprise

ST is a relatively new approach to governance and is associated with the work of researchers such as Muth and Donaldson (1998), Donaldson and Davis (1991). Under the ST model, which is typical in for-profit organisations, the role of the board of directors is that of an adviser and strategy formulator (Zahra and Pearce, 1989). The role of the manager is that of a "steward" rather than an individual seeking to maximise his/her own utility as AT assumes (Muth and Donaldson, 1998; Jenkins *et al.*, 2007). There is little literature, however, on ST in the non-profit sector (Low, 2006). Scholars such as Pfeffer and Salancik (1978), O'Regan and Oster (2005), Miller-Millensen (2003) and Iecovich (2005) and most recently Lyon and Humbert (2012) have written extensively on the nature of non-profit governance and how this affects their outcomes. Their work shows that some social enterprises are considering the stewardship governance model particularly due to the complexities of trading associated with democratic governance models. Van Slyke's (2005) findings in his study on social enterprises involved in public sector contracting show that the stewardship model is becoming a viable alternative for social enterprises seeking to be competitive in a hostile economic environment.

From the above discussion we can draw out three main issues that have a bearing on the central argument of this paper. First effective governance is just as important in the social economy as it is in the commercial sector. The governance of social enterprises therefore has implications for how social enterprises operate and their outcomes (Larner and Mason, 2014; Tranquada and Pepin, 2006). Second, contemporary discourses however show that the democratic governance model of social enterprise itself is now being increasingly questioned, given the evolution of the concept and its market relations. For example, Etchart and Davis (2003) and Ridley-Duff (2007) are of the opinion that the democratic governance associated with volunteer-dominated boards is inconsistent with the operations of a modern business. This argument is supported by Dees (2001), who suggests that voluntary board members tend to have a more hands-on approach than those in for-profit organisations, thus making them difficult to manage.

Third, traditional governance theories can be applied to social enterprise. Although social enterprises have emerged in the context of political, economic and social change as discussed above, they are corporate bodies and therefore suitable for analysis like commercial firms. The paper also argues that, despite being untested and new in the social economy, ST is a suitable lens that allows analysis of the governance of contemporary social enterprise. Although this theoretical approach has foundations in neo-classical economic theory, its use in this paper makes it possible to merge economic and social dimensions of contemporary social enterprises (Laville *et al.*, 2004). Based on the literature review, we can see that the nature of social enterprise governance has a bearing on both their outputs and outcomes.

Methods and data collection

The research design employed in this paper was based on a mixed method approach involving the complementary use of quantitative and qualitative data collection methods. An exploratory study involving a postal survey of 102 self-defined social enterprises was complemented by an in-depth qualitative analysis of four selected cases. A total of 218 postal questionnaires were sent in June 2012. By the initial deadline of the end of August 2012, 80 completed questionnaires had been returned. Reminders with copies of questionnaires attached were sent to non-respondents in September 2012. A further 22 questionnaires were received in response to these reminders. This represented a response rate of approximately 48 per cent. This exploratory quantitative research was important in identifying numbers and patterns of organisations that described themselves as social enterprises in South Yorkshire, given the paucity of information to this effect. Postal questionnaires were preferred to face-to-face interview techniques due to the geographical focus of the work (Denscombe, 2003; Ghauri and Gronhaug, 2005). The researchers used their knowledge and contacts in key social enterprise support organisations across the region to obtain contact information. In addition to ascertaining the number of self-defined social enterprises in South Yorkshire, the questionnaire obtained data on some of the critical factors affecting their growth and sustainability.

The investigation also employed qualitative face to face interviews to complement the conclusions from the data collected through the questionnaire survey (Saunders *et al.*, 2009). A semi-structured interview guide was used to collect relevant data from the selected cases. The key informants selected and interviewed were the founders of the social enterprises and senior managers. Eight interviews were conducted in total lasting approximately one hour each. The interviews were carried out, recorded and transcribed by the authors. The study involved a comparative analysis of four social enterprises, as shown below in Table I. These social enterprises were given fictitious names to anonymise them. Two had company limited by guarantee (CLG) legal structures (The Cafe and the Community Champion) and the remaining two, (The Landscaper and The Trainer), had company limited by shares (CLS) legal structures.

SPSS was used to analyse the quantitative data from questionnaire returns, given the empirical nature and size of the sample that had been obtained. The data collected from interviews of key informants was recorded, transcribed and manually analysed through an inductive process, which enabled the researcher to critically analyse each case study generate codes and manually identify the emerging themes (Bryman and Bell, 2003; Yin, 1993; Strauss and Corbin, 2008).

Discussion of results and key findings

The key objective of this paper is to gain insight into the nature of social enterprises' governance and how this influences the way they operate. Analysis of the composition of the board of directors and the functions of the boards of the cases under investigation painted an intriguing picture. Table II shows a description of description the governance structure of social enterprises in West Yorkshire.

Board structure and composition of cases with democratic governance models

Table II shows that the vast majority of these self-defined social enterprises are governed by volunteer boards of directors/trustees and paid staff. The volunteers also include operational management staff. This is consistent with Pearce's (2003)

Organisation	Thematic social-activity	Type of legal structure
The Trainer	Provision of basic education and training	Share capital (CLS)
The Landscaper	Environmental management and consultancy	Share capital (CLS)
The Cafe	Environmental preservation and renewable energy	Limited by guarantee (CLG)
The Community Champion	Provision of non-accredited skills training	Limited by guarantee (CLG)

Source: Survey data

Table I. Cases under investigation

Table II.
Description of the organisation and governance of social enterprise

Description of organisations	Governance of social enterprise Volunteer board and staff	Paid board of directors and staff	Manager/main entrepreneur	Volunteer board and paid staff	Volunteer board and part-time paid staff	Managed by host organisation	Total
Social enterprise	5	2	9	41	1	–	58
Co-op	1	–	–	1	–	–	2
Community organisation	4	1	4	23	2	–	34
Combination of all three	–	–	1	–	–	–	1
Registered charity	–	–	–	2	–	–	2
Development trust	–	–	–	2	–	–	2
Social firm	–	–	–	1	–	–	1
Not for profit	–	–	–	1	–	–	1
Self financing	–	–	–	–	–	–	1
Total	10	3	14	71	3	1	102

Source: Survey data

observation that volunteerism is a key characteristic of the governance of social enterprise. This dimension was supported by data from qualitative interviews. For example, the respondent from The Community champion said, "[*We* are all volunteers; we don't want to get anything out of this […] I mean […] financially. We are here to help the community]". These volunteers were motivated by philanthropic rather than economic considerations in their involvement in the governance of these social enterprises. However, the individuals on the boards of these organisations were not selected on the strength of the specific skills or knowledge that they bring to the organisation, but rather because of their passion for the community and its well-being. The respondent from The Cafe made this clear when he said, "[*we [the directors, sic]* could be doing other financially rewarding things in our life […]. we want to help the community and this is what brought us together]". In addition, the memoranda and articles of these organisations preclude personal remuneration of individuals within the organisation, except the payment of wages and reasonable travel expenses. For example, clause 5.2 of the memorandum and articles of association of The Community Champion says that board members must not: receive any payment of money or other material benefit (whether directly or indirectly). Clause 39 on The Cafe's memorandum and articles of association states that: "the trustees may be paid all the reasonable travelling, hotel and other expenses, properly incurred by them in connection with their duties […] but shall otherwise be paid no remuneration".

These clauses are typical of not-for-profit democratic governance models typified by shared ownership and protection of community assets, observations made by Pearce (2003). Overall, it can be seen that the volunteer led governance models reflect the philanthropic origins of social enterprise, characterised by an emphasis on the achievement of social rather than economic goals (Chell, 2007; Cornelius and Wallace, 2011).

Board structure and composition of cases with stewardship governance models

Table II interestingly shows that the number of social enterprises with paid boards of directors and staff account for a very small percentage of the sample (3 per cent). This reflects for-profit governance models. In addition to typical for-profit shareholders, these enterprises have also co-opted owner managers on their boards. This dimension shows a distinct move from traditional forms of participative and democratic management principles as social entrepreneurs take the lead and provide hands-on management of the social enterprise (Low, 2006). This is a characteristic of the stewardship model of governance of for profit enterprises. This development is supported by results from the qualitative interviews of the respective cases. The respondent from the trainer said, "[*A*s the owner of the project idea, it's important that I take a leading role […]. it's important that our governance structure allows me to do this]". On the other hand, a respondent from the Landscaper, whose board also includes a funder, remarked, "[Of course having a funder on the board is a good thing […] perhaps they will give us more money when they can see how well we are doing]". This dimension reveals the need for multi-stakeholder boards in social enterprises so as to adapt and widen sources of investments and expertise, a significant characteristic of the RDT approach. The presence of voluntary directors in the governance of share capital social enterprises is also an interesting finding. Closer scrutiny of these organisations' memoranda and articles of association revealed that this voluntary board of directors, in essence, hold shares that do not benefit from capital gain, but serve the purpose of a social lock that upholds and protect their organisations' social ethos. This vital purpose was confirmed by the respondent from The Trainer, who, in reference to these board members, remarked "[they vote on decisions pertaining to the overall direction of the company [...] They ensure that social ethos is maintained and that the company remains a social enterprise]". The next section focuses on the functions of the boards of directors of the organisations under scrutiny. The paper analyses the governance and board functions of social enterprise by comparing those underpinned by using CLG legal structures with those underpinned by CLS legal structures. This is shown below is Table III.

Board functions of cases with democratic governance models

It is clear from Table III above that cases with CLG legal status have boards that reflect democratic governance principles. These organisations do not have any external shareholders whom they have to satisfy financially but they have stakeholders such as the community members who vote and appoint directors onto the board (Spear *et al.*, 2009). The duties of these boards are therefore largely fiduciary, i.e. holding the organisation and its assets in trust. Our quantitative findings show that in addition to setting the strategic direction of the organisation and ratifying decisions, the boards of directors of these organisations also control and direct the organisations' day to day activities. These activities, particularly monitoring and control of activities are consistent with the AT. In this case the boards are agents of their stakeholders such as members of the community as observed by Larner and Mason (2014) and Miller-Millensen (2003). This is supported by results from the qualitative interviews. For example, the respondent from The Community Champion remarked, "[the board works closely with the manager and operational staff [...] we monitor everything because as I have said, our activities are funded and we have to be accountable to funders]". Regarding the function of its board, the respondent from The Cafe said, "[Everything is done democratically, but it is our duty to ensure that the staffs are doing their duties, because we are accountable to the community and funders]". However, by closely controlling the activities of managers as well as making and ratifying decisions, the boards of the Café and the Community Champion are effectively implementing their own decisions, a situation the respondent form the Community Champion acknowledged, "We need a management team [...]. we don't find time to sit back and try to look forward to find our direction [...] it's an area we badly miss out on". These statements reveal that executive and governance roles in social enterprise governance models are not clearly delineated and therefore can create dysfunction. These responses show that, although not usually possessing residual assets, social enterprises with democratic governance models do need to protect the assets they have from abuse (Iecovich, 2005). However, while the

Table III. Cross tabulation of type of legal structure and board functions

Type of legal structure	Setting strategic direction	Ratifying decisions	Monitoring and control	Holding assets in trust	Empowering CEOs	Mobilising resources	Total
Company limited by guarantee	10	7	36	26	–	–	79
Company limited by shares	4	–	–	–	3	1	8
Others	–	–	5	10	–	–	15
Total	14	7	41	36	3	1	102

Source: Survey data

boards of the Cafê and The Community Champion demonstrate democratic governance principles, they are also monitoring and controlling their respective organisation's activities on behalf of the community they serve (Miller-Millensen, 2003). The board functions of these organisations, therefore, appear to be incongruent with the democratic governance models associated with social enterprise.

Board functions of cases with stewardship governance models

Table III shows that the functions and roles of the board of directors of the enterprises with CLS legal status reveal a drift towards stewardship models of governance. Unlike those with democratic governance models, there is a clear attempt by the board to empower and provide autonomy for senior managers to work in the best interests of the organisation. This dimension is supported by case study interviews. The respondent from The Trainer said, "[We have a good board […] they let us do the work. We go to them for advice on issues affecting the organisation […] the senior managers here […] we let them get on with it]". The respondent from The Landscaper also said, "The board members are similar to what they would be in a private company […]. it's a practical choice rather than a social choice […] They [*the board, sic*] are responsible for strategic issues including […] help with key decisions". In both cases the lead entrepreneurs perform the Chief Executive Officer (CEO) role and are also central in the decision making process of the board, as they are part of it. They are mandated to make operational decisions and their expertise is recognised by their respective boards, a point made by a respondent from The Landscaper when he said: "I still make the day to day decisions and go to them [the board] for legal and financial advice". This response highlights the role of the board as adviser and strategy formulator, i.e. making key decisions and providing the necessary direction and strategic focus required for the organisation to achieve its objectives (Nicholson and Kiel, 2004). The two CLS organisations also had mechanisms to co-opt individuals or funders onto their boards for the benefit of their organisations. This resonates with the RDT which provides insight on how a firm can mobilise resources through its type of governance (Daily *et al.*, 2003; Muth and Donaldson, 1998). The Trainer managed to attract three social enterprises onto its board, two of which purchased dividend bearing shares valued at £2,500 each. The respondent from this organisation said, "*Yes,* they [*the social enterprises*] also want to grow their capital […] and it's good for us that we can raise finance this way, without seeking a loan". He explained further "They sit on the board and can vote". Although the dividend rate of return of these investments (i.e. 6 per cent), is quite low compared to commercial rates, this is a significant development in the social economy. By co-opting a funder onto the board, the Landscaper was establishing links with external organisations and ensuring access to financial resources essential for its survival. It is important to note that the participation of the funder in the governance of the organisation was facilitated by a share capital legal structure that enabled the organisation to issue equity shares in return for investment. Overall, the findings show that the boards of directors of social enterprises with stewardship models empower senior managers as well as co-opt key resources and expertise from external sources (Muth and Donaldson, 1998). These particular roles are associated with stewardship and resource dependency theoretical approaches. This is a key finding that shows that social enterprises are embracing for-profit governance models to achieve their objectives.

Outcomes of social enterprise and governance

Figure 1 below shows empirically derived information showing how type of governance model of social enterprises influences their outcomes.

It is clear that for The Trainer, the need to access equity investments influenced the organisation to adopt a CLS legal structure. This in turn resulted in a governance model characterised by elements of both stewardship and RD approaches. This provides opportunities for the social enterprise to access a variety of commercial opportunities that can increase its turnover and cash flow into the organisation and therefore support its social ethos (Low, 2006). The respondent from the Trainer supported this positive by saying: "*O*ne of our key objectives is to attract investments into our organisation […] we also need the right type of people on our board to allow this". This position was also shared by the respondent from the Landscaper who said, "We have been very careful about the type of governance we want. We need to attract the investments and people that can drive this organisation forward and leave us to do the work". Such organisations therefore seek to be sustainable entities with governance models that allow them to integrate the achievement of both financial and social goals in its operations. Although researchers such as Chell (2007) and Pearce (2003) insist that social enterprises are established primarily to create social value, rather than to increase the personal wealth of those leading them, this study has revealed otherwise. We have shown that it is possible to achieve both individual and organisational objectives, with a for-profit governance model and still operate as a viable social enterprise (Cornforth, 2014). On the other hand, it can be seen that the governance models of organisations with CLG legal structures (The Community Champion and The Café), are characterised by an aversion towards material infrastructure and

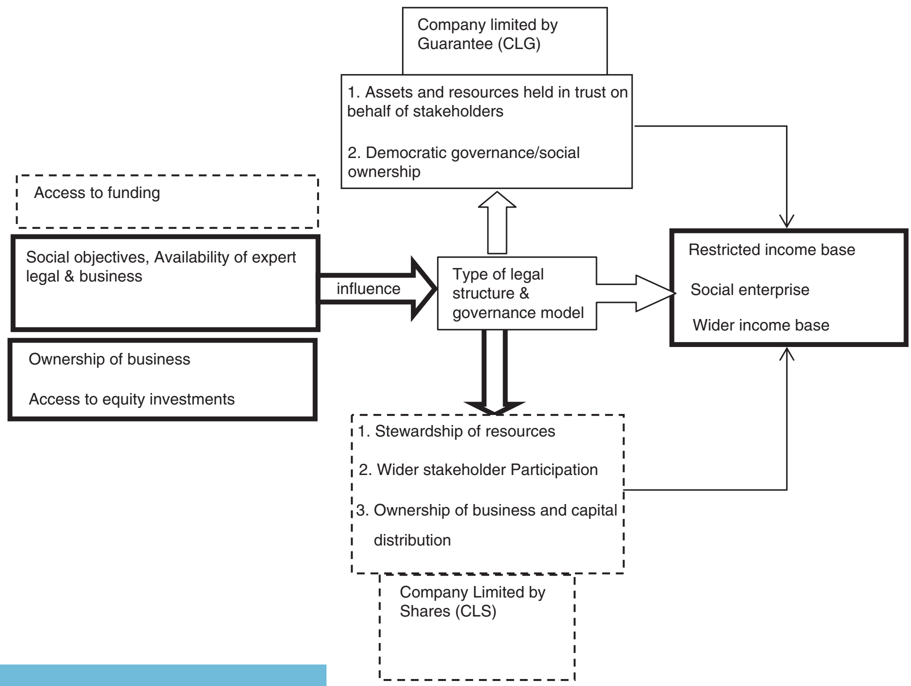

Figure 1.
Type of governance structure and influence on social enterprise outcomes

a commitment to democracy and inclusiveness in the running of the organisation. Their vulnerability to the vagaries of the market and their inability to pursue a wide range of commercial opportunities means that their potential to attain financial viability is limited, as shown in Figure 1. This is confirmed by the respondent from the Community champion who remarked, "*We* value shared ownership because we exist for the community […]. we generate very little money on our own and that's why we are struggling at the moment". Development of these social enterprises as sustainable businesses is severely limited by lack of an enterprise culture and failure to separate the roles of the board and executives. There is a strong desire to achieve social rather than economic objectives. This resonates with the observations of researchers such as Etchart and Davis (2003) and Ridley-Duff (2007), who argue that social enterprises with democratic governance model associated with volunteer-dominated boards struggle to operate as viable businesses.

Conclusion

This paper highlights the nature and character of social enterprise governance and makes a significant contribution to our understanding of this phenomenon. This contribution to knowledge also has policy implications, particularly at a time when social enterprises are facing viability constraints associated with their governance.

This paper argues that democratic governance models of social enterprise are still relevant in the social economy as they conform to the philanthropic ideology underpinning the concept of social enterprise, with a clear desire to protect assets of the organisation on behalf of the community and an aversion to full scale commercial operations (Eversole, 2013). We acknowledge therefore that despite being voluntary, boards of directors associated with democratic governance models are pivotal in ensuring accountability, legitimacy and transparency in the operations of such organisations (Dees, 2001; Campbell, 2007). While this governance model allows social enterprises to perform their social function, it casts doubt on their ability to develop vision in the wider context and to operate and compete for resources in the market (Low and Chinnock, 2008). Our findings show that the limitations of democratic governance models explains the increasing interest among social enterprises, in other forms of governance models such as stewardship and resource RD approaches (Low, 2006; Spear *et al.*, 2009). Adoption of these for-profit theoretical lenses, normally associated with the corporate sector, has allowed us to critically analyse social enterprises as businesses. This is a significant addition to literature, given the paucity of research on social enterprise governance (Lyon and Humbert, 2012). By utilising stewardship and resource dependency theoretical approaches in this study, we have identified two key issues that have provided the impetus for the shift from democratic to other forms of governance of social enterprise. Firstly the challenges posed by the economic environment, particularly increased competition for resources has made it imperative for social enterprises to consider stewardship models of governance models that allow them to operate as viable businesses (Low, 2006). Despite being an untried option in the social enterprise sector, our findings show this type of governance model, empowers individual in their organisations to be more proactive and business-like. This is a characteristic of the ST, associated with the work of researchers such as Muth and Donaldson (1998) and Donaldson and Davis (1991). Secondly, as more opportunities for social enterprises emerge, particularity in public service delivery, social enterprises are engaging more with external stakeholders including funders, investors and the communities in their operations (Hodgkin and Hughes, 2012; Lewis *et al.*, 2004).

They are increasingly using a variety of strategies to co-opt scarce resources and other forms of technical support from these external sources to achieve long term financial sustainability (Cornforth, 2014). These are elements of the RDT approach (Daily *et al.*, 2003; Hillman and Dalziel, 2003). We argue therefore that the RDT approach is relevant to the social enterprise sector given that raising financial resources and other forms of capital is a challenge for social enterprises.

These developments in governance signal a new trajectory that the social enterprise sector is exploring. We argue that the evolution of social enterprise also creates new sets of challenges that they need to address, given the nature of their boards (Zahra and Wright, 2014). The consideration of other form of governance models further demonstrate a paradigm shift in their strategic planning and shows that the nature of governance model influences a social enterprise's outcomes. It is however important to note that the economic environment of non-profits is complex and heterogeneous compared to that of the commercial sector. We acknowledge the need for further research to explore the stewardship governance model for social enterprise as this is a dramatic shift from the ideology underpinning the concept. This requires strong state support in the form of relevant policy that recognises this evolution in the social economy, to ensure success (Cornelius and Wallace, 2013; Hodgkin and Hughes, 2012).

References

Abzug, R. and Galaskiewicz, J. (2001), "Not for profit boards; crucibles of expertise or symbols of local identities?", *Nonprofit and Voluntary Sector Quarterly*, Vol. 30 No. 1, pp. 51-73.

Bazerman, M.H. and Schoorman, F.D. (1983), "A limited rationality model of interlocking directorates", *Academy of Management Review*, Vol. 8 No. 2, pp. 206-217.

Bertotti, M., Harden, A., Renton, A. and Sheridan, K. (2011), "The contribution of a social enterprise to the building of social capital in a disadvantaged urban area of London", *Community Development Journal*, Vol. 47 No. 2, pp. 168-183.

Bridge, S., Murtach, B. and O'Neil, K. (2009), *Understanding the Social Economy and the Third Sector*, Palgrave Macmillan, New York, NY.

Bryman, A. and Bell, E. (2003), *Business Research Methods*, Oxford University Press Inc, New York, NY.

Bull, M. (2008), "Challenging tensions: critical, theoretical and empirical perspectives on social enterprise", *International Journal of Entrepreneurship Behaviour and Research*, Vol. 14 No. 5, pp. 268-275.

Callen, J.L., Klein, A. and Tinkelman, D. (2010), "The contextual impact on nonprofit board composition and structure on organizational performance: agency and resource dependency perspectives", *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, Vol. 21, pp. 101-125.

Campbell, R. (2007), *For Love and Money: Governance and Social Enterprise*. Executive Summary Report, National Council for Voluntary Organisations, London.

Chell, E. (2007), "Social enterprise and entrepreneurship: towards a convergent theory of the entrepreneurial process", *International Small Business Journal*, Vol. 25 No. 1, pp. 3-19.

Chell, E., Nicolopoulou, K. and Karatas-Ozkan, M. (2010), "Social entrepreneurship and enterprise: international and innovation perspectives", *Entrepreneurial and Regional Development: An International Journal*, Vol. 22 No. 6, pp. 485-493.

Cornelius, N. and Wallace, J. (2011), "Cross-sector partnerships, city regeneration and social justice", *Journal of Business Ethics*, Vol. 94 No. 1, pp. 71-84.

Cornelius, N. and Wallace, J. (2013), "Capability, urban unrest and social enterprise: limits of the actions of third sector organisations", *International Journal of Public Sector Management*, Vol. 26 No. 3, pp. 232-249.

Cornforth, C.J. (2003), "The governance of co-operatives and mutual associations: a paradox perspective", *Annals of Public and Cooperative Economics*, Vol. 71 No. 1, pp. 11-32.

Cornforth, C.J. (2014), "Understanding and combating mission drift in social enterprises", *Social Enterprise Journal*, Vol. 10 No. 1, pp. 3-20.

Daily, C.M., Dalton, D.R. and Cannela, A.A. Jr (2003), "Corporate governance: decades of dialogue and data", *Academy of Management Review*, Vol. 28 No. 3, pp. 371-382.

Darby, L. and Jenkins, H. (2006), "Applying sustainability indicators to the social enterprise business model: the development and application of an indicator set for Newport Wastesavers, Wales", *International Journal of Social Economics*, Vol. 33 Nos 5/6, pp. 411-431.

Davis, G.F. and Cobb, J.A. (2009), "Resource dependency theory: past and future", *Research in Sociology Organizations*, Vol. 28, pp. 21-42.

Dees, J.G. (2001), "The meaning of social entrepreneurship", working paper, New York, NY, available at: www.tc.columbia.edu (accessed 10 December 2010).

Defourny, J. and Nyssens, M. (2008), "Social enterprise in Europe: recent trends and developments", *Social Enterprise Journal*, Vol. 4 No. 3, pp. 202-228.

Denscombe, M. (2003), *The Good Research Guide for Small Scale Social Research Projects*, Open University Press, Philadelphia, PA.

Donaldson, L. and Davis, J.H. (1991), "Stewardship theory or agency theory: ceo governance and shareholder returns", *Australian Journal of Management*, Vol. 16 No. 1, pp. 49-64.

Eikenberry, A. (2009), "Refusing the market: a democratic discourse for voluntary and nonprofit organisations", *Nonprofit and Voluntary Sector Quarterly*, Vol. 38 No. 4, pp. 582-596.

Eisenhardt, K.M. (1989), "Agency theory. An assessment and review", *Academy of Management Review*, Vol. 14 No. 1, pp. 57-74.

Etchart, N. and Davis, L. (2003), "Social enterprise ethics; an emerging field combining issues of accountability and transparency from the business and non-profit sectors", *European Business Ethics Network; 16th Annual Conference, Budapest*.

Eversole, R. (2013), "Social enterprise as local development actors: insights from Tasmania", *Local Economy*, Vol. 28 No. 6, pp. 567-579.

Eversole, R., Barraket, J. and Luke, B. (2013), "Social enterprises in rural community development", *Community Development Journal*, Vol. 49 No. 2, pp. 245-261.

Fama, E.F. and Jensen, M.C. (1983), "Separation of ownership and control", *Journal of Law and Economics*, Vol. 26 No. 2, pp. 301-325.

Ghauri, P. and Gronhaug, K. (2005), *Research Methods in Business Studies: A Practical Guide*, Prentice Hall, Dorchester.

Harradine, D. and Greenhalgh, K. (2012), "Link age plus; lessons for third sector organisations and commissioners", *International Journal of Public Sector Management*, Vol. 25 No. 5, pp. 391-403.

Herrala, M.E. and Haapasalo, H.J.O. (2012), "Effect of governance models on enhancing water service delivery", *International Journal of Public Sector Management*, Vol. 25 No. 5, pp. 373-390.

Hillman, A.J. and Dalziel, T. (2003), "Board of directors and firm performance: integrating agency and resource dependency perspective", *Academy of Management Review*, Vol. 28 No. 3, pp. 383-396.

Hodgkin, I.R. and Hughes, P. (2012), "A level playing field; social inclusion in public leisure", *International Journal of Public Sector Management*, Vol. 25 No. 1, pp. 48-63.

Iecovich, E. (2005), "The profile of board membership in Israeli voluntary organisations", *International Journal of Voluntary and Nonprofit Organisations*, Vol. 16 No. 2, pp. 161-180.

Jenkins, M., Ambrosini, V. and Collier, N. (2007), *Advanced Strategic Management; A Multi-perspective Approach*, Palgrave MacMillan, Basingstoke.

Jensen, M.C. (2001), *Value Maximisation, Stakeholder Theory, and the Corporate Objective Function*, The Monitor Company, Harvard Business School and Amos Tuck School at Dartmouth College.

Kerlin, J.A. (2010), "A comparative analysis of the global emergence of social enterprise", *Voluntas*, Vol. 21 No. 2, pp. 162-179.

Larner, J. and Mason, C. (2014), "Beyond box-ticking: a study of stakeholder involvement in social enterprise governance", *Corporate Governance*, Vol. 14 No. 2, pp. 181-196.

Laville, J.L., Mendell, M. and Levesque, B. (2004), *The Social Economy: Diverse Approaches and Perspectives in Europe and Canada*, OECD, Paris.

Lewis, T.J., Machold, S., Oxtoby, D. and Ahmed, P.K. (2004), "Employee roles in governance; contrasting the UK and German experience corporate governance", *International Journal of Business in Society*, Vol. 4 No. 4, pp. 16-28.

Low, C. (2006), "A framework for the governance of social enterprise", *International Journal of Economics*, Vol. 33 Nos 5/6, pp. 376-385.

Low, C. and Chinnock, C. (2008), "Governance failure in social enterprise", *Education, Knowledge and Economy*, Vol. 2 No. 3, pp. 203-212.

Lyon, F. and Humbert, A.L. (2012), "Gender balance in the governance of social enterprise", *Local Economy*, Vol. 27 No. 8, pp. 831-845.

McNulty, T. and Pettigrew, A. (1999), "Strategists on the board", *Journal of Management Studies*, Vol. 20 No. 1, pp. 47-74.

Mason, C., Kirkbride, J. and Bryde, D. (2006), "From stakeholders to institutions: the changing face of social enterprise governance theory", *Management Decision*, Vol. 45 No. 2, pp. 284-301.

Miller-Millensen, J.L. (2003), "Understanding the behaviour of nonprofit boards of directors: a theory based approached", *Nonprofit and Voluntary Sector Quarterly*, Vol. 32 No. 4, pp. 521-547.

Monks, R.A.G. and Minow, N. (1995), *Corporate Governance*, Blackwell, Oxford.

Muth, M.M. and Donaldson, L. (1998), "Stewardship theory and board structure; a contingency approach", *Corporate Governance: An International Review*, Vol. 6 No. 1, pp. 5-28.

Nicholson, G.J. and Kiel, G.C. (2004), "Breakthrough board performance: how to harness your board's intellectual property", *Corporate Governance*, Vol. 4 No. 1, pp. 5-23.

O'Regan, K. and Oster, S.M. (2005), "Does the structure and composition of the board matter? The case of non-profit organizations", *Journal of Law, Economics and Organizations*, Vol. 21 No. 1, pp. 201-227.

Paton, R. (2003), *Managing and Measuring Social Enterprises*, Sage, London.

Pearce, J. (2003), *Social Enterprise in Any Town*, Calouste Gulbenkian Foundation, London.

Pfeffer, J. and Salancik, G.R. (1978), *The External Control of Organizations: A Resource Dependency Perspective*, Harper and Row, New York, NY.

Ridley-Duff, R. (2007), "Communitarian perspectives on social enterprise", *Corporate Governance: An International Review Journal*, Vol. 15 No. 2, pp. 382-392.

Saunders, M., Lewis, P. and Thornhill, A. (2009), *Research Methods for Business Students*, 5th ed., Pearson Education Limited, London.

Spear, R. (2006), "Social entrepreneurship: a different model?", *International Journal of Social Economics*, Vol. 33 Nos 5/6, pp. 399-410.

Spear, R., Cornforth, C. and Aitken, A. (2009), "The governance challenges of social enterprise: evidence from a UK empirical study", *Annals of Public and Co-Operative Economics*, Vol. 80 No. 2, pp. 247-273.

Steinerowski, A.A. and Steinerowska-Streb, I. (2012), "Can social enterprise contribute to creating sustainable rural communities? Using the lens of structural theory to analyse the ermegence of rural social enterprise", *Local Economy*, Vol. 27 No. 2, pp. 167-182.

Strauss, A. and Corbin, J. (2008), *Basics of Qualitative Research*, 3rd ed., Sage Publications, Los Angeles, CA.

Teasdale, S. (2012), "What's in an name? Making sense of social enterprise discourses", *Public Policy and Administartion*, Vol. 27 No. 2, pp. 99-119.

Tranquada, W. and Pepin, J. (2006), *Venture Philanthropy: Good Results Will be Addictive*, Alliance Extra, Northants.

Van Slyke, D.M. (2005), "Agents or stewards: how government manages its contracting relationship with non-profit social services providers", *Academy of Management Best Conference Paper-PNP*, New York, NY.

Yin, R.K. (1993), *Applications of Case Study Research*, Sage Publishing, Newbury Park, CA.

Zahra, S.A. and Pearce, J.A. (1989), "Board of directors and corporate financial performance: a review and integrative model", *Journal of Management*, Vol. 15 No. 2, pp. 291-244.

Zahra, S.A. and Wright, M. (2014), "Contextualisation and the advancement of entrepreneurship research", *Small Business Journal*, Vol. 32 No. 5, pp. 479-500.

Further reading

Martin, F. and Thompson, J. (2010), *Social Enterprise: Developing Sustainable Businesses*, Palgrave Macmillan, Basingstoke.

Corresponding author

Dr Walter Mswaka can be contacted at: w.mswaka@hud.ac.uk